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TAGS: ECIN ECON EFIN PGOV PREL SN
SUBJECT: DEPOSIT INSURANCE DOMINOS FALLING ACROSS SE ASIA

REFTELS
¶A. Hong Kong 1909
¶B. Kuala Lumpur 897
¶C. Jakarta 1923
¶D. Jakarta 1897
¶E. Bangkok 1560

¶1. (SBU) Summary: Last week, Southeast Asian governments' limited deposit insurance schemes fell like dominos. Even though authorities insist that their financial systems are strong, expansions of deposit insurance in competitor jurisdictions outside Southeast Asia, especially Hong Kong, Australia, and the U.K., prompted a preemptive expansion of guarantees by Southeast Asian governments. The new guarantees -- generally expected to be in place until the end of 2010 -- reverse the post-Asian financial crisis trend of gradual reduction of the amount of deposits insured. Only Indonesia seems to be at risk of any pressure on deposits right now, but Thailand may see flight of larger depositors next year if the implementation of its scheduled reduction in deposit insurance coverage is not postponed.

End Summary.

¶2. (U) This cable was drafted by regional Finatt/Singapore with coordination and contributions from econoffs in Hong Kong, Kuala Lumpur, Jakarta and Bangkok.

Singapore: Hong Kong actions push change

¶3. (U) After markets closed on October 16, the Monetary Authority of Singapore (MAS) and Ministry of Finance announced that Singapore will guarantee all local and foreign currency deposit of individuals and non-bank customers in banks, finance companies and merchant banks licensed by the MAS until the end of 2010. This represents a significant expansion from the previous policy of only insuring the first S$20,000 (approximately US$13,600) of Singapore dollar accounts only for individuals and charities. The guarantee will be backed up by S$150 billion (approximately US$102 billion) of Singapore's

fiscal
reserves, which are distinct from the foreign exchange reserves of the MAS. (Note: As required by the constitution, the program was approved by Singapore's President whose job it is to safeguard the use of Singapore's fiscal reserves.)

¶4. (U) Singapore was motivated by the deposit insurance expansion announced by Hong Kong (reftel A) on October 14. Specifically, Hong Kong Monetary Authority (HKMA) announced that, effective immediately, it will guarantee all bank deposits until the end of 2010 and provide supplementary capital to banks as necessary, using the HKMA's Exchange Fund to back up the plan. Hong Kong previously had a deposit insurance scheme capped at HKD 100,000 (approximately US$12,800). Hong Kong authorities contended that they were following the lead of other governments, not because of concerns about banking system health, but to avoid putting Hong Kong at a competitive disadvantage vis-a-vis other economies that have provided similar guarantees. Singapore mirrored this logic in its release, noting that while its banks remain "sound and resilient", "the announcement by a few jurisdictions in the region of Government guarantees for bank deposits has set off a dynamic that puts pressure on other jurisdictions to respond or else risk disadvantaging and potentially weakening their own financial institutions."

¶5. (U) Analysts agreed with the MAS view that "Under the current environment of heightened anxiety, one could not have ruled out a shift of deposits to Hong Kong, especially those of high net worth individuals with deposits well in excess of S$20,000. This would have challenged SingaporeQs competitive position as an international financial centre, and especially as a wealth management hub." After Ireland announced its blanket deposit guarantee in early October, the United Kingdom (UK) and Australia, among others, followed with broader coverage. (Note: two of Hong Kong's largest deposit-taking banks, HSBC and Standard Chartered, are domiciled in the UK. These two banks also have a large presence in Singapore and other Southeast Asian countries.)

Malaysia: Keeping Up With Singapore

¶6. (U) Also on the evening of October 16, Bank Negara Malaysia (BNM) and the Malaysian Ministry of Finance announced that effective immediately, all ringgit and foreign currency deposits with commercial, Islamic and investment banks, and deposit taking development financial institutions regulated by BNM, will be fully guaranteed by the Government through Perbadanan Insurans Deposit Malaysia (PIDM) until December 2010. The guarantee extends to all domestic and locally incorporated foreign banking institutions. (Note: BNM also extended access to its liquidity facilities to insurance companies and takaful (Islamic insurance) operators that it regulates and supervises.)

¶7. (U) Kevin Chew, Senior Manager at PIDM, confirmed in a phone call with econoff that regional considerations were the driving force behind the change rather than any specific pressure. He insisted that the move was just a preemptive measure because other countries

were doing it. They didnQt want jittery investors moving their money to another country where their deposits were guaranteed. Chew was very skeptical about the possibility that these guarantees would ever need to be tapped. He described Malaysian banks as "very well capitalized" and "flush with liquidity." He pointed to unchanged inter-bank rates in Malaysia, unlike in Hong Kong and Singapore where higher rates signaled that banks were reluctant to lend to one another.

Indonesia: Fell Early, but May Need Even More

¶8. (U) Indonesia was the first in the region to expand its deposit insurance coverage in the wake of volatile interbank, currency and equity markets. On October 13, Indonesia issued a presidential decree in lieu of a law that allowed the Indonesia Deposit Insurance Corporation to raise the deposit amount subject to government guarantee from IDR 100 million (approximately $10,000) to IDR 2 billion (approximately $200,000) per depositor, per bank. The new higher limit reportedly will completely insure 97 percent of depositors, but only around 61 percent of total deposits by value.

(See reftels C and D for details of other actions taken to improve liquidity in the Indonesian financial system.)

¶9. (SBU) On October 15, Indonesia also hiked the maximum interest rate allowed on rupiah-denominated guaranteed deposits by 75 basis points to 10 percent, citing a need to raise the attractiveness of local currency deposits. The maximum guaranteed deposit rate for foreign currency deposits remained at 3.5 percent. (Comment: considering Indonesia's 12-percent inflation rate and pressure on the currency, it may take a higher insured deposit interest rate to restore depositor confidence, especially when deposits in

neighboring countries such as Singapore are now fully government guaranteed. Some banks have had to offer rates as high as 3 percent to attract longer-term deposits in recent months. End comment.)

Thailand safe, for now

¶10. (U) Thailand has not joined its neighbors because it is still operating under a blanket deposit guarantee introduced in 1997. However, Thailand's Deposit Protection Agency Act (DPAA), effective from August 2008, will replace the current blanket deposit guarantee system over a four-year time frame (see reftel E). Specifically, the Thai government will continue to give a blanket guarantee of all deposits in the first year, then cover 100 million baht (approximately $2.9 million) per person per bank for the second year, 50 million baht (approximately $1.5 million) for the third year, 20 million baht (approximately $483,000) for the fourth year and 1 million (approximately $29,000) in the fifth year.

¶10. (SBU) Commercial analysts estimate that while deposit accounts of 1 million baht or less constitute 99 percent of all bank accounts in number, they comprise only 26 percent of deposits by value. During the four-year phase-in period, the bill grants the government the authority to increase the insurance limits depending on prevailing economic conditions. (Comment: Thailand may have to push back the

implementation of the DPAA so as to conform to the three-year time frame during which other large depositors in the region will be covered, or else risk capital flight to Singapore, Hong Kong or Malaysian banks.)

Few details on premium increases

¶11. (U) Global best practice would require that any increase in deposit coverage generally be funded by an increase in the premiums charged to the banks benefitting from the guarantee. However, there is a dearth of information on premium changes across Southeast Asia:

-- Singapore made no reference to increased premiums in its statement.
-- Malaysia's Chew said that premiums for deposit insurance would go up, but that PIDM had not yet "worked out the details" regarding how much.
-- Indonesia has not yet made any public announcements about any increase in premiums.
-- Thailand's DPA has also not yet finalized its premium schedule, although market analysts expect it will remain at the same 40 basis points of total deposits that banks were previously required to contribute to the Financial Institutions Development Fund for at least a few years. DPA officials told Finatt in August that they would likely move to a more risk-based system after the DPA fund had reached a comfortable size.

Further moves ahead?

¶12. (SBU) While all governments insist that their financial systems are sound, they remain vigilant and may take further action if necessary. For example, Bank Negara specifically announced on October 16 that it stands ready to "guarantee interbank obligations of banking institutions and facilitate efficient access to capital for banking institutions to maintain capital adequacy at target

levels well above the minimum standards." Malaysia's Chew noted that Bank Negara did not anticipate needing to so at this time. However, "nobody can pin down a number," he told us, and "no one knows how deep the recession in the U.S will go." Bank Negara will do it if it has to, he said.

Comment: Coordination will be required

¶13. (SBU) Southeast Asian countries clearly wish to avoid the deposit flight they experienced during the Asian Financial Crisis, when most regional countries had no formal deposit insurance coverage. A preemptive strategy is quite understandable, although some coordination will be required to make the return to limited deposit insurance in December 2010 problem-free. Noting that the International Deposit Insurance Association convenes its annual meetings in Washington at the end of October, Malaysia's Chew observed that "weQll probably have a lot to talk about."